

PART II Written description justifying the rate increase

Anthem Health Plans of Kentucky, Inc. NAIC 95120
Consumer Disclosure for Proposed Health Insurance Rate Increase
Individual On and Off Exchange Plans
Rate Change Effective January 1, 2018

Scope and Range of the Rate Increase

Anthem Health Plans of Kentucky, Inc. has made an application to the Kentucky Department of Insurance for premium rate changes for its fully ACA compliant Individual health plan products. This increase will impact approximately 69,500 Kentucky insured members renewing on 1/1/2018 with Anthem Health Plans of Kentucky, Inc. At the individual plan level, rate increases range from 30.0 percent to 47.7 percent. We expect most individuals will have an increase over 10 percent. A subscriber's actual rate increase could be higher or lower depending on the geographic location, age characteristics, dependent coverage, and other factors.

Financial Experience

Anthem Health Plans of Kentucky, Inc. expects the proposed rate increase will cover projected medical trends and yield a medical loss ratio of 84.7 percent, meaning more than eighty four cents of each premium dollar are expected to go to covering our members' medical expenses and improving health care quality. This projected MLR of 84.7 percent exceeds the minimum MLR requirement of 80 percent as defined in the Affordable Care Act ACA. In the event Anthem Health Plans of Kentucky, Inc.'s MLR is less than the Federal required minimum for a three year period, Anthem will refund the difference to policyholders, consistent with federal regulations.

Drivers of Rate Increase

The primary drivers of premium increases are associated with increased cost of benefit expense for this ACA-compliant block. Increased cost of benefit expense is driven by increases in the price of services primarily from hospitals, physicians and pharmacies, coupled with members increasing their use of health care services, also called utilization. Increases in the price of services are driven by technological advances, new specialty medications, and a variety of other factors. Increased utilization is driven by member level utilization and selection patterns in the Guaranteed Issue, Community Rated ACA market.

Non benefit expense costs are also contributing to this 2018 rate increase. Absent a change in federal law, the health insurer fee returns in 2018. Premiums must be set to cover this fee, but we can remove those costs if federal policymakers repeal the fee or extend the moratorium through 2018.

Cost Sharing Reduction Payments

This rate filing and all supporting assumptions are contingent upon the current Individual market regulatory framework and operating environment whereby cost share reduction subsidies CSRs will continue to be fully funded by the Federal Government through 2018. Should that change or remain uncertain beyond early June, the proposed rates will no longer be appropriate at which time Anthem will withdraw and re evaluate the current 2018 rate filing and market participation in light of the increased uncertainty or volatility in the market. Such adjustments could include reducing service area

participation, requesting additional rate increases, eliminating certain product offerings, or exiting certain Individual ACA compliant markets altogether.

Efforts to Control Costs

Anthem Health Plans of Kentucky, Inc. is committed to working to hold down the cost of insurance and price the Individual ACA market for long term sustainability. We continue to explore innovative collaboration with providers and negotiate deeper discounts at our hospitals. And we provide members with tools to make informed decisions about where and how to receive treatment. Despite these efforts to moderate the cost of insurance, the cost of benefit expense in the Individual ACA market has continued to outpace premium on a large scale due to the drivers described above. In light of emerging costs, significant 2018 premium increases are needed to price Anthem Health Plans of Kentucky, Inc.'s ACA compliant Individual health plan products for long term sustainability.